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ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson *EA for EGJ*
Director
Utilities Division

DATE: September 22, 2008

RE: STAFF REPORT FOR SAGUARO WATER COMPANYS' APPLICATION
FOR ESTABLISHMENT OF A HOOK-UP FEE TARIFF
(DOCKET NO. W-01790A-06-0177) and W-01816A-06-0177

Attached is the Staff Report for Saguaro Water Company's application for the establishment of a hook-up fee tariff. Staff recommends denial of the application.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 12:00 p.m. on or before October 02, 2008.

EGJ: MEM:kdh

Originator: Marvin E. Millsap

Attachment: Original and thirteen Copies

Arizona Corporation Commission

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Service List for: Saguaro Water Company
Docket No. W-01790A-06-0177

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**STAFF REPORT
UTILITY DIVISION
ARIZONA CORPORATION COMMISSION**

SAGUARO WATER COMPANY

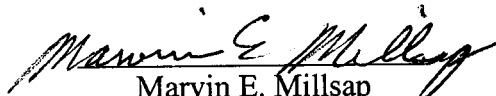
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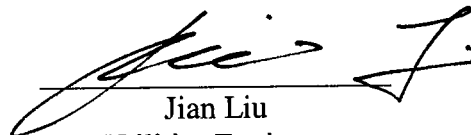
**APPLICATION
FOR A
HOOK-UP FEE TARIFF**

SEPTEMBER 22, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Saguaro Water Company, Docket No. W-01790A-06-0177, was the responsibility of the Staff members listed below. Marvin E. Millsap was responsible for the financial review and analysis of the Company's application. Jain Liu was responsible for the engineering and technical analysis.


Marvin E. Millsap
Public Utilities Analyst IV


Jian Liu
Utilities Engineer

**EXECUTIVE SUMMARY
SAGUARO WATER COMPANY
DOCKET NO. W-01790A-06-0177**

Saguaro Water Company ("Company") currently serves approximately 1,058 customers in a portion of Pima County approximately one-half mile east of the Tucson city limits. The Company is requesting that the establishment of a hook-up fee tariff be approved.

Staff recommends denial of the hook-up fee tariff as presented in this Report.

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET:.....	1
SUMMARY OF FILING AND BACKGROUND:	1
ENGINEERING ANALYSIS:	2
STAFF RECOMMENDATIONS:.....	2

FACT SHEET:

Company: Saguaro Water Company

Current rates: Decision No. 59493, dated January 1, 1996.

Type of ownership: Saguaro Water Company is an Arizona "C" Corporation.

Location: The Company currently serves approximately 1,058 customers in a portion of Pima County approximately one-half mile east of the Tucson City Limits.

Rates: The Company currently does not have a hook-up fee tariff.

Customers: The Company currently has no customers to whom the hook-up fee will apply.

Notification: Customer notification has not yet been made.

SUMMARY OF FILING AND BACKGROUND:

The Saguaro Water Company ("SWC" or "Company") submitted an application on December 6, 2007, for review and approval of a proposed Hook-up Fee Tariff ("HUF") in compliance with Decision No. 69646.

At this time, there are no customers to whom the hook-up fee would apply; but anticipated growth during the 2008 through 2018 time frame for development cited by SWC is estimated to result in 334 new customers for Saguaro Water Company. The infrastructure necessary to support this growth is estimated to cost \$555,000 based on the Water System Master Plan for the system prepared by Westland Resources, Inc. The proposed Hook-up Fee Tariff described below is intended to fund sixty (60%) percent of this cost.

For Saguaro Water Company

Meter Size

5/8 inch	\$ 920.00
3/4 inch	\$ 1,380.00 Scaled on 5/8 meter flow
1 inch	\$ 2,300.00 Scaled on 5/8 meter flow
1 1/2 inch	\$ 4,600.00 Scaled on 5/8 meter flow
2 inch	\$ 7,360.00 Scaled on 5/8 meter flow
3 inch	\$14,720.00 Scaled on 5/8 meter flow
4 inch	\$23,000.00 Scaled on 5/8 meter flow
6 inch	\$27,600.00 Scaled on 5/8 meter flow

ENGINEERING ANALYSIS:

In Decision No. 69646, dated June 6, 2007, the Arizona Corporation Commission ordered Saguaro Water Company to submit for Staff's review a proposed hook-up fee tariff, which is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage, and pressure among all new service connections.

The Company's Certificate of Convenience and Necessity ("CC&N") encompasses approximately 2,400 acres and is located approximately 17 miles southeast of the City of Tucson in Pima County. SWC served over 1,000 customers as of December 2007.

The Company filed its proposed hook-up fee tariff on December 6, 2007. SWC anticipated that new customer growth would be limited and that only 334 new customers would be added over the next ten years (by 2018). The Company's proposed hook-up fee per connection for a 5/8" x 3/4" meter is \$920. In calculating this amount however, the Company included plant additions that do not benefit the entire system and therefore do not qualify as "Off-Site Facilities" as defined in the Commission's standard HUF tariff template.

Based on SWC's application for the proposed hook-up fee tariff, the future build-out well production requirement is approximately 1,170 gallons per minutes ("GPM"). only 138 GPM is needed to meet new customer demands. The Company's water system currently has sufficient booster capacity to serve the future water system at buildout. The Company's future reservoir system requirement is 700,000 gallons storage. Only 140,000 gallons of storage is needed to meet new customer demands.

Most of the backbone plant the Company will need to meet future growth has already been constructed, and the few proposed facilities that remain to be built do not benefit the entire water system.

Staff concludes that due to the projected slow growth and minimal additional off-site facilities that are required, a hook-up fee tariff is not appropriate for the Company at this time.

STAFF RECOMMENDATIONS:

Staff recommends denial of the Hook-up Fee Tariff rates as presented above.

Staff further recommends that SWC be required to file a full rate case no later than April 30, 2013, using a test year ending December 31, 2012.